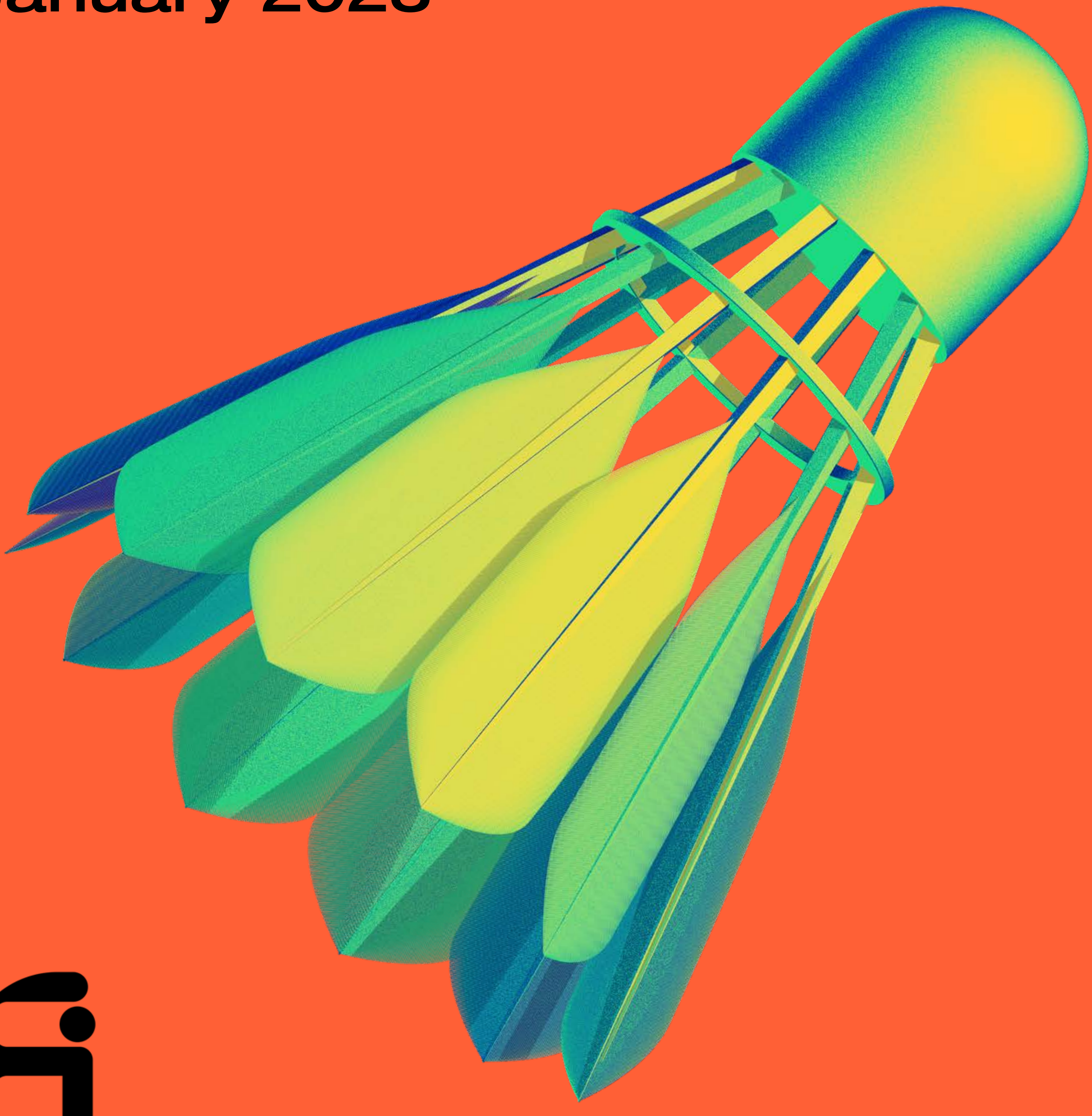
The Economic Impact of Buy Now Pay Later in Australia – Updated

January 2023



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All figures in this report are stated in Australian Dollars (A$) unless otherwise indicated.

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AFIA BNPL Code Signatories

- afterpay
- Brighte
- humm group
- Klarna. Smoooth payments
- LATITUDE
- openpay
- payright
- Plenti
- zip

The Economic Impact of Buy Now Pay Later in Australia – Updated

Foreword

Financial services regulation needs to be proportionate, scalable, and targeted.

We know “one size fits all” doesn’t work with most things in life.

It doesn’t work when we’re dealing with customers experiencing hardship or vulnerability, because we need to take account of the unique circumstances of every individual.

And, it especially doesn’t work when dealing with regulation of a wide range financial products, services, and technologies – some delivering home mortgages of hundreds of thousands of dollars and some enabling the purchase of a pair of jeans.

For Australia to achieve an innovative, competitive, and technologically advanced financial ecosystem, inclusive of all and protective of vulnerable consumers, we must have regulation that is right-sized.

Regulation must be proportionate to benefits and costs, scalable to different business models and customer expectations, and targeted to address market inefficiencies and achieve better consumer outcomes.

COVID-19, digitisation and evolving technologies have disrupted the way we all interact with money.

The changing landscape for financial services is not simply a function of the age of smartphones – it’s because we want simple and integrated ways of managing our money. We want fast frictionless payment channels instead of clunky processes, queues, and paper documents. We just want to get on with it.

The new products, services and technologies we’re using now are challenging the ways regulators have traditionally protected us from harm and maintained market integrity. Yes, regulation is important, but it needs to be the right regulation.

Two decades ago, Australia was ahead of the curve. We implemented the Financial Services Reform Act, which - along with regulatory guidance from ASIC - built a regime cognisant of the “nature, scale and complexity” of different-sized financial institutions.

In the UK, the Financial Conduct Authority cites “proportionality” as its second principle of good regulation, after efficiency. The United States, European Union, Hong Kong, and Japan have all implemented proportionate regulatory frameworks.

However, Australia’s principles-based laws have been complicated over twenty years by reams of legislative and regulatory additions. Though well intended, they have had unintended consequences and often take a “one size fits all” approach.

There are a number of reasons why taking a “one size fits all” approach doesn’t result in better outcomes. Cost is a big one – the costs of regulation weigh more heavily on smaller organisations, forcing them to increase their prices and reducing their ability to compete. Higher costs can also be passed onto consumers and this can exclude some consumers from mainstream finance.

Inflexible regulation also penalises innovation, by imposing old ways of doing business on new entrants. This creates a barrier to market entry and leads to less competition, which drives up prices and again penalises consumers who continue to pay more than they should.

Commissioner Hayne during the Financial Services Royal Commission recognised the imposition of additional regulation needs to be carefully thought through, stating: “Given the existing breadth and complexity of the regulation of the financial services industry, adding any new layer of law or regulation will add a new layer of compliance cost and complexity. That should not be done unless there is a clearly identified advantage.”

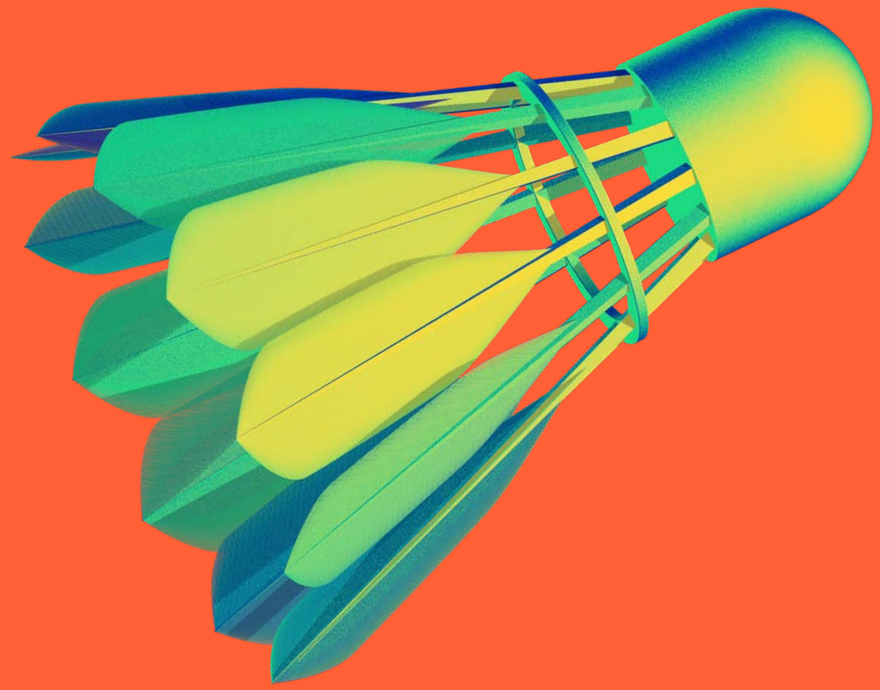
Following the global financial crisis, the OECD called on governments to “think big” about the relevance of regulation to support economic growth and social welfare as countries emerged from the crisis. I agree with this call to action, but that’s not enough. The pandemic showed us we must also think ahead.

If we want “efficient, honest and fair markets” – the concept that underpins our financial services laws – we need to acknowledge that markets and consumer expectations change, and thus, a “one size fits all” approach to rules causes market distortions that undesirably restrict consumer access and choice.

Going forward, Australia needs regulation that is fit for the future. Regulation that recognises the distinguishing features of products and services and can flex to the changing expectations of customers and changing technology and data-driven practices in the industry. Regulation that applies consumer protections reflecting how consumers are actually managing their money, making payments, using technologies.

We can handle these challenges, but it will require us taking an approach recognising that these unique problems require unique solutions. We need to think creatively so we design frameworks that can take us through the next twenty years and beyond.

Recently it’s been pleasing to see both the Treasurer and the Minister for Financial Services acknowledge the need for regulatory frameworks to keep up when they announced their plans for modernising Australia’s financial system.



Ultimately, I hope we all want the same thing: to cement Australia as a world class financial ecosystem, delivering the best products and services for us all, while providing strong support for vulnerable customers. And, we all want prosperity for every Australian to be more than just a vision.

Diane Tate
Chief Executive Officer,
Australian Finance Industry Association

BNPL continues to see strong support from consumers and retailers

The payments sector continues to undergo rapid evolution with a shift in consumer preferences away from traditional credit options and towards alternative payments products that offer convenience, interest-free finance, and better cashflow management opportunities. Consumer behaviours accelerated by the COVID-19 global pandemic are becoming the norm, with increasing consumer appetite and expectations for tech-enabled products and services and continued growth in our digital economy.

BNPL enables mostly small, short-term purchases, most commonly repaid in interest-free instalments, or larger purchases, such as solar systems or other home improvements, educational courses, photography and other packages, and technology upgrades. This means a consumer can purchase goods or services without paying the full value upfront and with no interest charges if repayments are made on time. Retailers benefit from offering BNPL through the introduction of new customers, increased revenue and decreased operating costs.

BNPL is a competitive sector, as evidenced by the presence of low barriers to entry, low switching costs, available substitutes and declining retailer fees. BNPL represents a small, but growing part of Australia's payments ecosystem as both consumers and retailers are realising its benefits.

According to the Reserve Bank of Australia (RBA), BNPL transactions grew by approximately 37 percent in 2021-22 measured by value, to around $16 billion which is equivalent to around two percent of Australian card payments.[1] Data provided by BNPL Code signatories shows transactions worth $15.3 billion in 2021-22, which is an increase of 29 percent over FY21 ($11.9 billion).[2]

RBA data shows the number of active accounts also increased, from 5 million to around 7 million as at 30 June 2022, although some consumers hold accounts with multiple providers.[3]. Data provided by BNPL Code signatories shows 6.3 million active accounts were held with Code signatories in Australia as at 30 June 2022, an increase of 12.5 percent over FY21 (5.6 million as at 30 June 2021).[4]

During FY22, a number of new providers entered the BNPL market, and more recently, banks such as NAB, Westpac and the Commonwealth Bank have begun offering BNPL, BNPL-like products or zero-interest products. These industry developments reflect consumer demand for tech-enabled products and services and interest in the emerging sector across the Australian financial services industry.[5] The range of retailers accepting BNPL transactions has also increased as growth in e-commence continues in Australia[6].

Consumer and retailer confidence in BNPL has been supported by AFIA's BNPL Code of Practice (the Code). Approximately 90 percent of active accounts[7] are protected by the high industry standards and consumer safeguards in the Code to which nine BNPL providers are signatories: Afterpay, Brighte, humm group, Klarna, Latitude, Openpay, Payright, Plenti and Zip Co[8].

This self-regulatory framework is acting as a valuable model for overseas markets given Australia's early innovation in and adoption of BNPL. The Code is also influencing best practices around the world, with financial regulators in the United Kingdom and New Zealand looking to reflect the standards and practices included in the Code in future regulation in these jurisdictions.

1 Reserve Bank of Australia (2022), Payments System Board Annual Report 2022, p 18.
2 Data provided to the Code Compliance Committee by the nine Code signatories.
3 *Ibid.*
4 The Economic Impact of Buy Now Pay Later in Australia report published in June 2022 provided a total BNPL accounts based on data as at end September 2021 (5.9 million), whereas this second report provides data as at end June 2021 to compare year-on-year with data as at end June 2022.
5 Commonwealth Bank of Australia, 'StepPay – a new way to buy now pay later'; National Australia Bank, 'NAB Now Pay Later | Buy now pay later in four instalments – NAB'; Westpac, 'Flex Credit Card with 0% Interest | Westpac'.
6 Data provided to the Code Compliance Committee by the nine Code signatories.
7 The difference between RBA data showing the total market is approximately 7 million active accounts, and data provided to the Code Compliance Committee by the nine Code signatories showing they hold 6.3 million active accounts.
8 AFIA is in discussions with several new and small providers regarding the accreditation process and compliance requirements to become a Code Complaint Member (Code signatory).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The economic impact of BNPL

BIS Oxford Economics used two separate approaches to measure the economic impact of BNPL in Australia.

Firstly, using economic contribution metrics, BIS Oxford Economics measured the role of BNPL in supporting national employment and GDP. This analysis showed that for every $1 million spent by consumers using BNPL services in the FY22 period, there was a corresponding $1.2 million contribution to GDP and 7.9 jobs were created or maintained across Australia.

Therefore, in FY22, allowing for flow-on effects and updating the relevant economic modelling inputs, BNPL helped create or retain some 120,200 jobs throughout Australia, an increase of 21.2 percent on FY21 (99,200 jobs) and contributed $18.4 billion in Gross Domestic Product (GDP) to the Australian economy, an increase of 28.7 percent on FY21 ($14.3 billion).

Secondly, using a welfare economics approach, BIS Oxford Economics measured the combined consumer and retailer surplus benefits, or 'net social surplus'.

The results in this report provide a good illustration of 'revealed preference', with consumers and retailers continuing to adopt BNPL because it provides advantages when compared to other payment alternatives.

Using these metrics and updating the relevant economic modelling inputs, and after allowing for costs, BNPL has an overall net positive impact to the Australian economy in FY22 of $1.613 billion, an increase of 28.4 percent on FY21 ($1.256 billion).

BNPL's popularity has been driven by:

- Credit card and other interest and fee savings for consumers
- Budgeting and cashflow management benefits for consumers
- Growth in revenue and associated profits for retailers, and
- Cost efficiencies for retailers.

Figure 1: BNPL as proportion of all transactions and value processed during FY22[9]

Payment type	Volume of Transactions (billions)	Share of Total Transaction Volume (percent)	Value of Transactions (A$ billions)	Share of Total Transaction value (percent)
Credit card	3.14	18.55%	341.48	1.96%
Debit card	9.40	55.49%	475.56	2.73%
Cheques	0.03	0.17%	340.67	1.95%
Credit transfer	2.29	13.51%	10,855.19	62.28%
Debit transfer	1.02	6.03%	4,247.26	24.37%
New Payments Platform	1.06	6.25%	1,168.60	6.71%
BNPL[10]	0.11	0.66%	15.28	0.09%

9 Based on Reserve Bank of Australia Payments Data (original series) published at http://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html as well as data reported by the nine BNPL providers that are Code signatories who are estimated to account for nearly 90 percent of the Australian BNPL market.
10 BNPL transactions are captured by existing payment types monitored by the RBA. BNPL quoted should be considered an overlay against traditional payment types listed above, and therefore, the first six rows add up to 100 percent, as they represent the totality of payments.

The consumer benefits

The BNPL payments model provides consumers with several key benefits, including consumption smoothing, budgeting support, a convenient lower cost alternative to traditional credit and access to online store directories.

As a result, the number of BNPL users in Australia with active accounts with BNPL Code signatories has grown, reaching approximately 6.3 million active accounts as at 30 June 2022, representing an increase of 12.5 percent over FY21 (5.6 million). There has also been an increase in the value of transactions reaching $15.3 billion in FY22, an increase of 28.4 percent over FY21 ($11.9 billion).

It is estimated BNPL users in Australia gained $337 million in gross benefits from using BNPL services in FY22, an increase of 27.7 percent over the FY21 period ($264 million) and $87 million in net benefits, an increase of 27.9 percent over FY21 ($68 million), after subtracting account fees, administration fees, late fees, net consumer loss from other sources and other costs[11].

These benefits were driven by savings in interest and fee costs (relative to credit cards), surcharge savings and the benefits to consumers of delaying payment, allowing for more effective budgeting and providing a better reflection of consumer preferences.

11 The methodological approach for this update is based on that outlined in the Economic Impact of BNPL in Australia Report published in June 2022. Note: While provider details have been obtained across a number of indicators, and updated RBA data has been applied to the new data where relevant, it was not possible to undertake new consumer or merchant survey work for this updated report. In addition, it was not possible to obtain revised provider fee data for this updated report. Accordingly, revised provider fee costs of $210 million for FY22 have been estimated, based on fee proportions relative to gross consumer benefits as reported in the 2021 report.

The retailer benefits

BNPL was accepted by more than 158,900 Australian businesses as at 30 June 2022, representing an increase of 17.4 percent over FY21 (135,400).

BNPL is helping retailers to generate new revenue, gain deeper insights and a better understanding of customer preferences and transaction activity, and decrease business and operating costs, with small businesses gaining greater benefit from BNPL.

BIS Oxford Economics has calculated BNPL delivered $3.5 billion in gross benefits to retailers from using BNPL services in FY22, an increase of 25 percent on FY21 ($2.8 billion) and $1.5 billion in net benefits, an increase of 25 percent on FY21 ($1.2 billion). This result included creating $2.7 billion in new revenue for retailers through new customer acquisition, increased basket sizes and increased customer satisfaction and retention, an increase of 28.6 percent on FY21 ($2.1 billion).

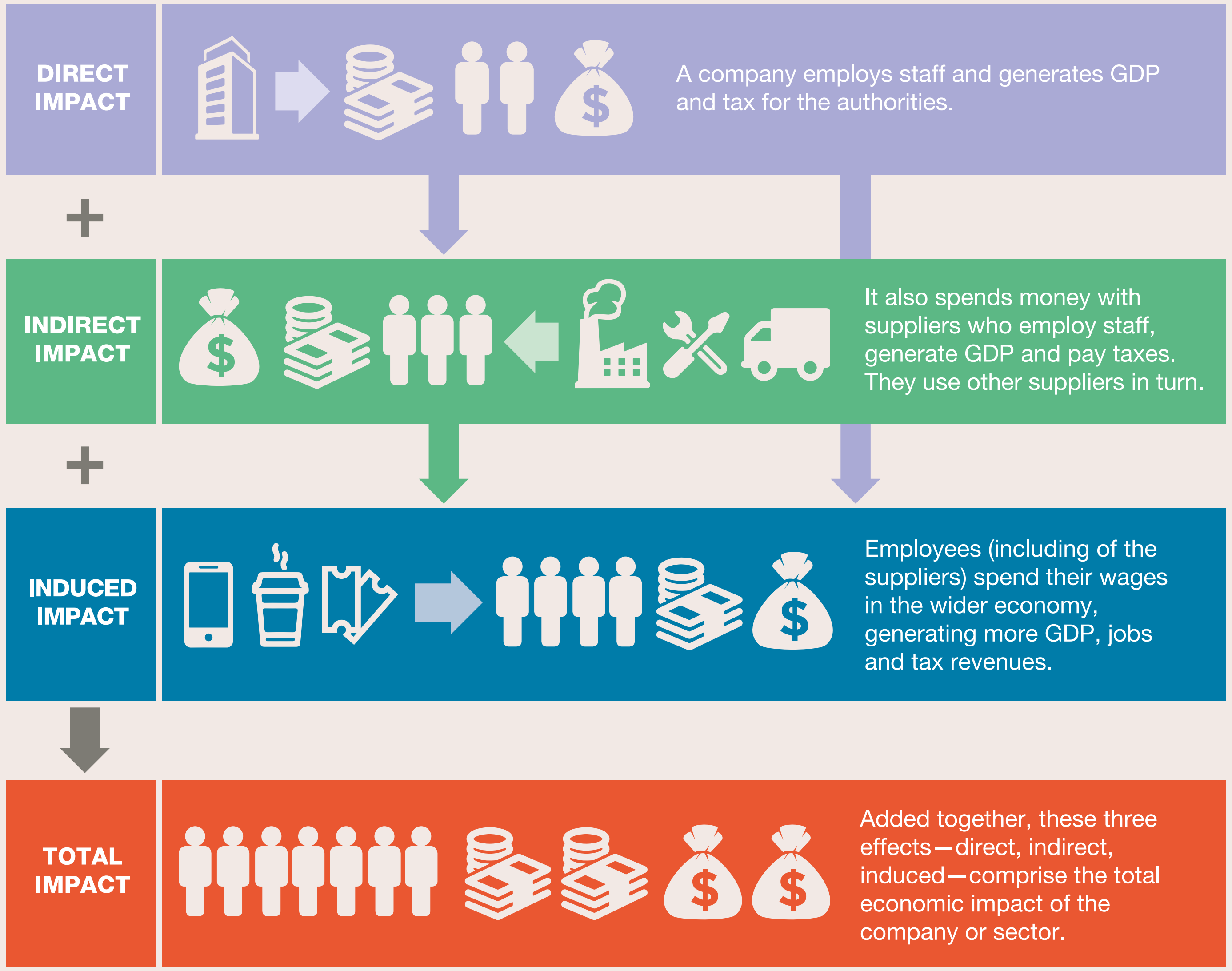
In addition, retailers accepting BNPL enjoyed $804 million in cost efficiencies in FY22 from lower customer acquisition and service costs, lower fraud rates and lower marketing costs, an increase of 28.4 percent on FY21 ($626 million).

High level methodology

This updated report contains data and information collated from publicly available sources as well as industry data from surveys conducted by RFI Global, data collected from the nine BNPL Code signatories, and economic modelling conducted by BIS Oxford Economics of the direct and flow-on effect of BNPL.

For further details about the research methodology and reference data, please refer to the Economic Impact of BNPL in Australia Report published in June 2022.

Figure 2: Calculating the economic contribution to Australia

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The Economic Impact of BNPL in Australia

Summary of findings FY22

Every **$1 million** of consumer spending using BNPL results in …

→ **7.9 jobs** annual employment

→ **$1.2 million** in Australian GDP

$15.3 billion of consumer spending using BNPL results in …

→ **120,200 jobs** annual employment

→ **$18.4 billion** in Australian GDP

6.3 million
Active accounts in Australia

$15.3 billion
Value of transactions

$136
Average transaction value

18.2×
Average BNPL usage per annum

158,900
BNPL-accepting retailers

$2.7 billion
New revenue generated by BNPL

0.66%
Share of total transactions under the Australian payments system

0.39%
Of active accounts were in hardship on 30 June 2022

0.02%
Ratio of BNPL-related EDR complaints to active accounts as at 30 June 2022

AFCA reports 1,064 EDR complaints related to BNPL in FY22, which refers to the entire BNPL market, not just the nine BNPL Code signatories. This is very low compared to other product categories, with the vast majority of disputes resolved expeditiously.

Data is for the FY22 period and in A$ unless otherwise specified. Please refer to The Economic Impact of BNPL in Australia Report, January 2023, for more details.

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About the Australian Finance Industry Association

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

About BIS Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college and has become one of the world's foremost independent global advisory firms, providing best-of-class global economic and industry models, reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Oxford Economics provide an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, the company employs over 300 full-time people, including more than 200 professional economists, industry experts and business editors and has access to a contributor network of over 500 economists, analysts and journalists around the world.

In March 2017 Oxford Economics purchased BIS Shrapnel to become BIS Oxford Economics. BIS Oxford Economics has an Australian staff of over 50 who combine deep knowledge of the Australian economic environment with access to Oxford Economics' global capabilities to provide powerful insights.

About RFI Global

RFI Global is the only global data & insights company focusing exclusively on financial services. We help clients move quickly and confidently from question to data-driven action.

RFI Global provides actionable and evidence-based insights to clients ranging from Global and Regional Banks to FinTechs, Consultancies and Regulators in 48 markets.

We equip leaders across the finance industry with global and regional insights that pinpoint trends, predict future consumer behaviour, sentiment and identify outliers. Since 2006, our data-driven insights, actionable recommendations and unparalleled intelligence remove uncertainty from the decision-making process of leading financial service providers.

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